Howard Johnson Company Annual Report

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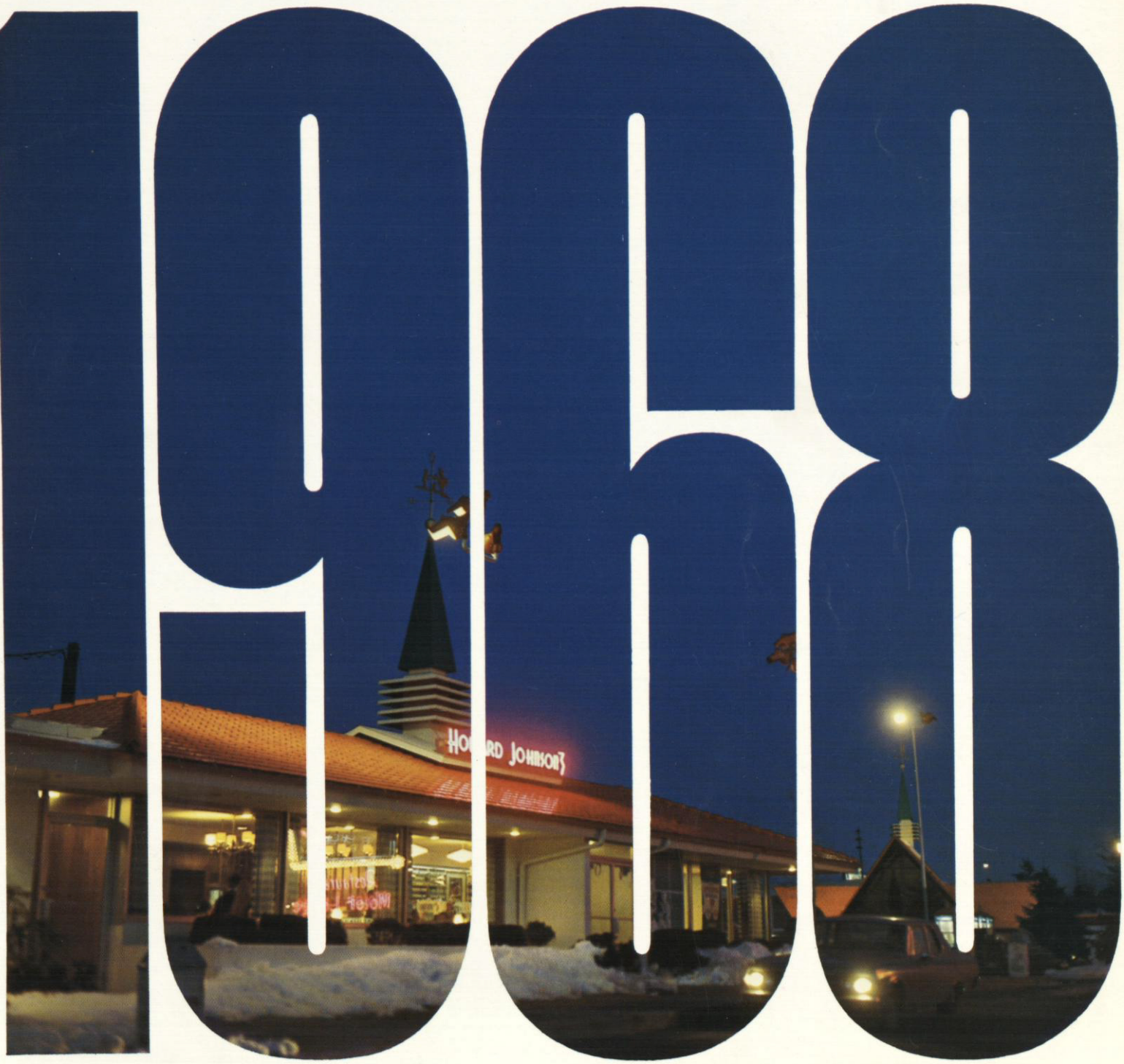


HOWARD
JOHNSON'S

Financial Highlights

	1968	1967
Sales and Revenues	$237,415,000	$211,293,000
Income Before Federal Income Taxes	17,681,000	14,587,000
Federal Income Taxes	8,100,000	6,000,000
Income Before Extraordinary Gain	9,581,000	8,587,000
Extraordinary Gain, Net of Income Taxes (see Note 7 to financial statements)	1,814,000	–
Net Income	11,395,000	8,587,000
Income Per Share (based on average shares outstanding during the year): Before Extraordinary Gain	$1.92	$1.74
Extraordinary Gain, Net of Income Taxes	.36	–
Net Income	$2.28	$1.74
Cash Dividends Declared Per Share	$ .40	$ .15
Depreciation	8,602,000	8,285,000
Fixed Asset Additions	13,858,000	12,831,000
Working Capital at December 31	25,278,000	26,295,000
Ratio of Current Assets to Current Liabilities at December 31	2.3	2.3
Stockholders' Equity Per Share (based on shares outstanding at end of year)	$16.52	$14.56

a. The additional surtax provision decreased 1968 income before the extraordinary gain by $834,000 or $.17 per share and decreased total net income by $903,000 or $.18 per share.

b. See Note 2 to the financial statements for a description of the change in 1968 in method of computing depreciation for new fixed assets which resulted in an increase in net income of $169,000 or $.03 per share.

The year 1968 was one of the most eventful ever for Howard Johnson Company. Sales, revenues and net income were the highest on record, as the company continued to expand into new markets and laid the groundwork for continued future growth.

Total sales and revenues increased to $237,415,000 from $211,293,000 in 1967. Net income rose to a record $9,581,000 from $8,587,000 in the previous year, an increase of 11%. Earnings per share were $1.92, compared with $1.74 in 1967. The 1968 earnings reflect the 10% federal income tax surcharge amounting to $834,000 or $.17 per share. Not included in these earnings is an extraordinary gain of $1,814,000 or $.36 per share, resulting from the sale of a restaurant property on Queens Blvd. in New York City.

We began this year, for financial reporting purposes, to provide depreciation on the straight-line method for the majority of depreciable fixed assets acquired subsequent to January 1, 1968. This change from accelerated depreciation methods resulted in an increase of $169,000 or $.03 per share in net income for the year.

Cash dividend declarations amounted to $.40 per share, compared to $.15 per share in 1967 when cash dividends were initiated. In March 1968 the Board of Directors increased the quarterly dividend from $.05 per share to $.10 per share. It will continue to be the Board's policy to consider the payment of cash dividends on a quarterly basis.

At its December meeting the Board of Directors voted to submit to the annual meeting of stockholders in April a proposal to increase the authorized capital stock of the company to 12 million shares. If approved by stockholders the directors contemplate a 2 for 1 stock split to be effected through the medium of a 100% stock distribution.

Favorable weather during the important summer months, selective price increases and continuing development of our

promotional and advertising programs combined to produce higher average volumes and improved profit margins in our restaurant and motor lodge operations.

During the year 36 Howard Johnson's restaurants (including six restaurants on the Kansas Turnpike that were previously operated under other management) and 28 new Howard Johnson's motor lodges were opened. Thirty of these restaurants and eight motor lodges are operated by the company. In addition, the company acquired five restaurants and seven motor lodges from licensed operators. Three restaurants previously operated by the company were leased to licensees. During the year 24 restaurants were closed, seven of which were company-operated and 17 licensee-operated.

A highlight of the year was the licensing of our first international operations. A Howard Johnson's hotel and restaurant are under construction in Amsterdam, Netherlands. We are studying additional sites in Europe for other possible licensed operations. A licensing agreement was also signed for the development of a chain of Howard Johnson's restaurants and motor lodges in Canada.

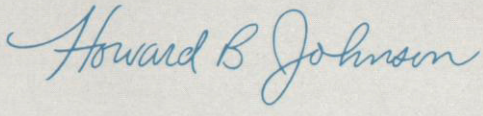
The "tight money" market that began late in 1966 eased somewhat in 1968. We expect an increase in the number of new restaurants to be opened in 1969, and we will continue to emphasize profitability by reviewing marginal units. We expect also to continue expanding the number of company-operated motor lodges in the coming year and simultaneously to increase the number of licensed motor lodges. Under our expansion programs we anticipate that capital expenditures during 1969 will increase significantly over the $13.9 million spent in 1968. Our financial position remains strong, and we anticipate no difficulty in financing this expansion.

During 1968 responsibility for the Grocery Products, Beverage, Automatic Merchandising, and Landmark Supply Divisions was assigned to a newly designated Special Divisions group vice president. Grocery Products Division sales continued to increase at a very satisfactory rate. Under a new marketing approach, the Beverage Division granted its initial franchise for the bottling and distribution of Howard Johnson's carbonated soft drinks. Both the Landmark Supply Division and Automatic Merchandising Division increased sales and profits.

Responsibility for all manufacturing and distribution activities was centralized on a national basis to allow us to adopt the most efficient operating methods and permit restaurant division managers to devote their full efforts to retail operations. In addition to consolidation of operations, we continued to restructure, consolidate and strengthen our staff functions to provide improved support for our operating groups.

As we enter 1969 our company is strong financially and our organization has a greater capability than ever before for continued progress. We are confident that the company is prepared to take full advantage of opportunities in the years ahead.

The Board of Directors and management join me in expressing our appreciation to our 14,000 stockholders for their continuing interest and support and to our 20,000 employees for their loyal and able service. We wish also to extend our appreciation to the operators of 648 licensed restaurants and motor lodges for their contributions to the company's continuing success.



February 28, 1969

Howard B. Johnson
Chairman of the Board and President

Howard Johnson Company and Subsidiaries
Consolidated Balance Sheet

Assets December 31	1968	1967
Current assets:		
Cash	$ 5,663,000	$ 6,671,000
Short-term securities, at cost (approximate market)	17,323,000	20,892,000
Accounts receivable, less allowance of $238,000 for doubtful accounts ($163,000 in 1967)	6,554,000	5,367,000
Inventories of merchandise and materials, at lower of average cost or market	14,615,000	12,522,000
Prepaid expenses	1,076,000	854,000
Total current assets	45,231,000	46,306,000
Fixed assets (Note 2):		
Cost	100,419,000	90,775,000
Accumulated depreciation	42,315,000	36,676,000
	58,104,000	54,099,000
Mortgage note receivable and other assets (Note 7)	3,803,000	1,130,000
	$107,138,000	$101,535,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable—portion due within one year (Note 4)	$ 5,634,000	$ 8,226,000
Dividend payable	499,000	248,000
Accounts payable and accrued expenses	11,351,000	9,232,000
Federal income taxes	2,469,000	2,305,000
Total current liabilities	19,953,000	20,011,000
Notes payable—portion due after one year (Note 4)	3,936,000	9,330,000
Deferred income taxes (Notes 2 and 7)	755,000	—
Stockholders' equity:		
Common stock, par value $1 per share (Note 5):		
Authorized—6,700,000 shares		
Issued—4,995,082 shares in 1968; 4,958,014 shares in 1967	4,995,000	4,958,000
Capital surplus (Note 5)	15,541,000	14,679,000
Retained earnings	61,958,000	52,557,000
	82,494,000	72,194,000
Lease commitments (Note 6)		
	$107,138,000	$101,535,000

Howard Johnson Company and Subsidiaries
Consolidated Statement of
Income and Retained Earnings

Year ended December 31	1968	1967
Sales and revenues:		
Net sales	$229,134,000	$203,780,000
Licensing and other income	8,129,000	6,662,000
Gain on disposals of fixed assets	152,000	851,000
Total sales and revenues	237,415,000	211,293,000
Costs and expenses:		
Cost of sales and manufacturing, warehousing and transportation expenses, excluding depreciation	96,482,000	87,532,000
Selling, restaurant and motor lodge operating, administrative and general expenses, excluding depreciation	113,831,000	100,024,000
Depreciation (Note 2)	8,602,000	8,285,000
Interest	819,000	865,000
Total costs and expenses	219,734,000	196,706,000
Income before federal income taxes	17,681,000	14,587,000
Provision for federal income taxes (Note 3)	8,100,000	6,000,000
Income before extraordinary gain (Note 2)	9,581,000	8,587,000
Extraordinary gain, less applicable income taxes (Note 7)	1,814,000	–
Net income	11,395,000	8,587,000
Retained earnings at beginning of year	52,557,000	47,098,000
Cash dividends declared–$.40 per share in 1968; $.15 in 1967	(1,994,000)	(743,000)
Market value of 48,929 shares of capital stock issued as 1% stock dividend in 1967	–	(2,385,000)
Retained earnings at end of year	$ 61,958,000	$ 52,557,000
Income per share of common stock:		
Before extraordinary gain	$ 1.92	$ 1.74
Extraordinary gain, net of income taxes	.36	–
Net income	$ 2.28	$ 1.74

Consolidated Statement of Source and Application of Funds

Year ended December 31	1968	1967
Source:		
Net income	$11,395,000	$ 8,587,000
Depreciation	8,602,000	8,285,000
Deferred income taxes	755,000	—
Disposals of fixed assets	1,251,000	2,493,000
Increase in non-current notes payable	—	210,000
Proceeds from exercise of stock options	899,000	535,000
Decrease in working capital	1,017,000	—
	$23,919,000	$20,110,000
Application:		
Fixed asset additions	$13,858,000	$12,831,000
Decrease in non-current notes payable	5,394,000	—
Cash dividends declared	1,994,000	743,000
Increase in other assets	2,673,000	103,000
Increase in working capital	—	6,433,000
	$23,919,000	$20,110,000

Opinion of Independent Accountants

PRICE WATERHOUSE & CO.

225 FRANKLIN STREET
BOSTON 02110

To the Board of Directors
and Stockholders of Howard Johnson Company

In our opinion, the accompanying balance sheet and the related statements of income and retained earnings and of source and application of funds present fairly the consolidated financial position of Howard Johnson Company and subsidiaries at December 31, 1968 and the results of their operations and source and application of funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the change, which we approve, in the method of computing depreciation described in Note 2 to the financial statements. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

February 10, 1969

Price Waterhouse & Co.

Note 1—Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Howard Johnson Company and its subsidiaries, all of which are wholly-owned.

Note 2—Fixed Assets and Depreciation Policy

Fixed assets are stated at cost. The asset and accumulated depreciation accounts exclude fully depreciated assets still in use. The details of the asset accounts at December 31 are summarized as follows:

	1968	1967
Land and land improvements	$ 9,107,000	$ 8,644,000
Buildings owned	8,611,000	8,773,000
Buildings and improvements on leased property	19,473,000	17,230,000
Restaurant and motor lodge equipment	51,827,000	45,516,000
Plant, office and transportation equipment	11,401,000	10,612,000
	$100,419,000	$90,775,000

In 1968, for financial reporting purposes, the Company began to provide depreciation on the straight-line method for the majority of the depreciable fixed assets acquired subsequent to January 1, 1968. Previously similar assets had been depreciated on the sum-of-the-years-digits method. This change resulted in an increase of $169,000 in net income for the year.

The sum-of-the-years-digits method of depreciation is being continued for federal income tax purposes and a provision for deferred income taxes has been made for the resulting reduction in taxes currently payable. No change was made in the method of computing depreciation on any assets acquired prior to January 1, 1968.

Note 3—Provision for Federal Income Taxes

A comparative summary of the provision for federal income taxes follows:

	1968	1967
Current provision	$7,747,000	$6,528,000
Additional surtax	834,000	—
Investment credit	(654,000)	(528,000)
Deferred (See Note 2)	173,000	—
	$8,100,000	$6,000,000

Note 4—Notes Payable

At December 31, 1968 the Company was obligated under notes payable summarized as follows:

	Portion due	
	Within one year	After one year
Notes payable to banks 5¾% and 6%, unsecured	$5,167,000	$2,000,000
Real estate and chattel mortgages, mostly at 5% to 6%	347,000	1,679,000
Other	120,000	257,000
	$5,634,000	$3,936,000

The aggregate amounts which mature in each of the years 1970 to 1973 are $2,385,000, $269,000, $235,000 and $211,000, respectively.

Note 5—Capital Stock, Capital Surplus and Stock Options

On December 23, 1968, the Board of Directors proposed that an increase in authorized common stock to 12 million shares be voted on by the stockholders at the annual meeting to be held in April, 1969 in order to permit a two-for-one split in the form of a 100% stock distribution.

The Company has stock options outstanding under stock option plans adopted in 1961 and 1966. At the beginning of 1968 options to purchase 254,588 shares of the Company's common stock were held by executives and key employees of the Company and its subsidiaries. During 1968 options for 37,068 shares were exercised, options were granted to purchase 26,350 shares and options for 23,307 shares lapsed. Of the total proceeds from shares exercised $37,000 was credited to common stock and $862,000 to capital surplus. At the end of 1968, the following options were outstanding:

Year of grant	Year of lapse	Average price per share	Total shares under option at December 31, 1968	
			Exercisable	Outstanding
1964	1969	$28.73	11,350	11,350
1965	1970	39.01	21,028	21,028
1966	1971	53.18	87,790	125,382
1967	1972	50.75	12,834	38,703
1968	1973	46.95	—	24,100
			133,002	220,563

Options become exercisable as to 40% of the shares one year from the date of grant, 70% after two years and 100% after three years. Under the terms of the plans, additional options for 19,505 shares may be granted at prices no less than 100% of their fair market value at the date of grant.

Note 6—Lease Commitments

The aggregate amount of rentals charged to income in 1968 was $19,500,000 comprising real estate rentals under minimum annual rental and percentage-of-sales agreements and rentals of real estate, trucks and equipment under short-term lease arrangements. Minimum annual rentals under long-term leases, most of which expire in various years to 1988, are approximately $10,700,000 exclusive of $1,100,000 for units currently under construction. Such minimum annual rentals are exclusive of taxes, insurance and other expenses in certain instances to be paid by the lessee.

The Company is also contingently obligated under leases, most of which expire in various years to 1988, relating to properties occupied by licensees. Minimum annual rentals under these leases amount to approximately $675,000.

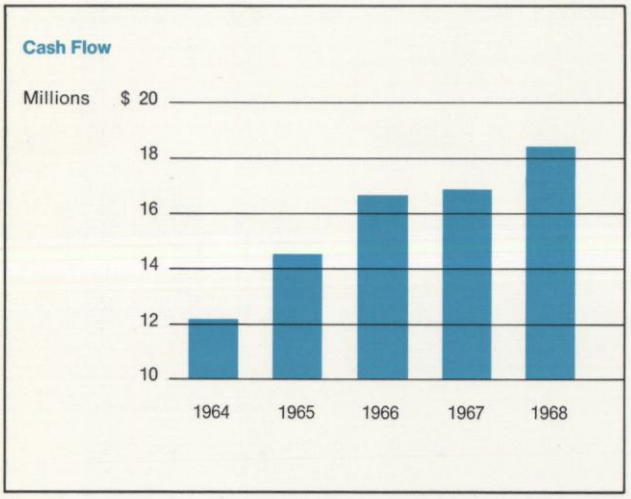
Note 7—Extraordinary Gain

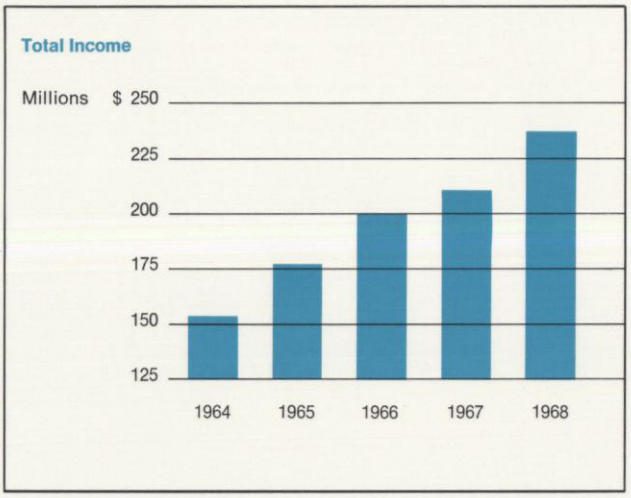
During December 1968 the Company sold the Queens Boulevard, New York City restaurant property for a net gain of $1,814,000, after applicable income taxes of $894,000. Of the total proceeds, $650,000 was received in cash and $2,505,000 is represented by a purchase money mortgage payable within a three-year period. The entire gain after related taxes was included in 1968 income for financial statement purposes. For tax purposes the gain is being accounted for on the installment basis and the related reduction in taxes currently payable has been included in deferred income taxes.

Howard Johnson Company and Subsidiaries

Ten Year Summary

(000 omitted)





Earnings:

Sales and revenues .....
Income before federal income taxes .....
Federal income taxes .....
Net income .....
Net income per share .....

Other Financial Data:

Average number of shares outstanding (2) .....
Cash dividends per share .....
Depreciation (3) .....
Fixed asset additions .....
Total assets .....

Working capital .....

Ratio of current assets to current liabilities .....

Stockholders' equity per share (4) .....

Number of Locations:

Howard Johnson's Restaurants
- Company .....
- Licensee .....
- Total .....

Howard Johnson's Motor Lodges

Units
- Company .....
- Licensee .....
- Total .....

Rooms
- Company .....
- Licensee .....
- Total .....

Red Coach Grills
- Company .....
- Licensee .....
- Total .....

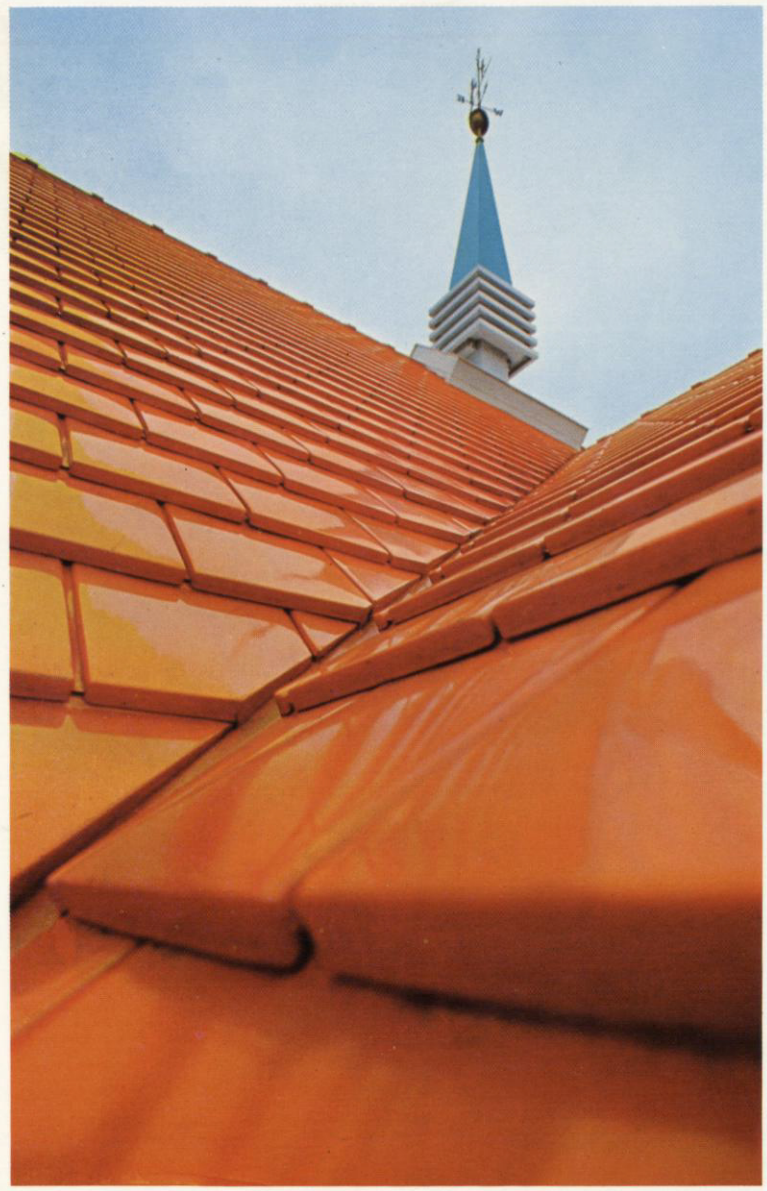
(1) Before extraordinary gain of $1,814,000 or $.36 per share.
(2) Adjusted for subsequent stock dividends and the 100% stock distribution in 1966.
(3) See Note 2 of Notes to Financial Statements.
(4) Based on shares outstanding at end of year.

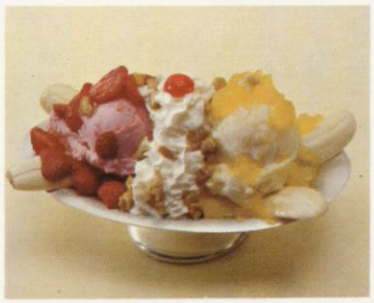
1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
$237,415	$211,293	$200,092	$175,531	$152,798	$127,106	$113,476	$102,382	$96,799	$90,296
17,681	14,587	15,785	15,955	14,079	10,942	9,034	8,213	7,384	7,282
8,100	6,000	6,500	6,930	6,470	5,550	4,430	4,120	3,656	3,701
9,581[1]	8,587	9,285	9,025	7,609	5,392	4,604	4,093	3,728	3,581
$1.92[1]	$1.74	$1.89	$1.86	$1.58	$1.12	$.96	$.85	$.78	$.74
4,978	4,947	4,917	4,864	4,825	4,813	4,812	4,810	4,810	4,810
$.40	$.15	—	—	—	—	—	—	—	—
8,602	8,285	7,210	5,723	4,529	3,515	3,069	2,826	2,623	2,423
13,858	12,831	18,587	14,136	10,598	10,556	6,657	4,521	3,879	3,715
107,138	101,535	90,633	75,670	60,223	49,335	41,598	36,721	32,773	29,209
25,278	26,295	19,862	17,362	12,949	9,180	10,448	9,590	7,512	7,065
2.3	2.3	2.1	2.1	2.0	1.8	2.1	2.1	1.9	2.0
$16.52	$14.56	$13.07	$11.00	$9.06	$7.44	$6.32	$5.36	$4.51	$4.43
509	484	457	419	372	325	300	279	264	249
316	329	336	331	336	338	338	337	341	333
825	813	793	750	708	663	638	616	605	582
29	14	9	5	1	—	—	—	—	—
331	318	283	239	209	166	139	111	87	69
360	332	292	244	210	166	139	111	87	69
2,220	1,030	650	390	60	—	—	—	—	—
30,280	28,650	24,440	19,580	16,800	13,240	10,470	8,010	6,340	4,870
32,500	29,680	25,090	19,970	16,860	13,240	10,470	8,010	6,340	4,870
17	17	18	17	15	14	12	11	10	11
1	1	—	—	—	—	—	—	—	—
18	18	18	17	15	14	12	11	10	11

The review of operations that follows shows that 1968 was a year of impressive growth for Howard Johnson's in terms of revenues and profits. There is another type of growth, however, that cannot be measured in numbers. This is the growth of experience and capability of people who will determine the ultimate success of the company.

A great deal of effort has been devoted over the past few years to improving our organization structure and to strengthening our management team. This process continued through 1968, and we made significant progress toward achieving our objectives.

Among our most valuable assets today are the staff and operations management who are meeting the challenges of our industry and who will lay the foundation for continued growth. As the results of 1968 operations are reviewed on the following pages, you will see some of these people at work.





QUALITY CHOCOLATES
The perfect gift for Valentine's Day February 14th
QUALITY CHOCOLATES
A thoughtful gift for Easter
Your remembrance for Mother's Day
QUALITY CHOCOLATES

Restaurant Operations

Howard Johnson's restaurant sales and profits increased substantially in 1968. Increases were the result of both internal and external factors, including a larger number of operating units, some selected menu price increases, the effects of our continuing programs to stimulate sales and to improve operating efficiencies, and excellent weather during our peak seasons.

At the end of the year there were 825 Howard Johnson's restaurants serving the public in 37 states, the District of Columbia, Puerto Rico and the Bahamas.

Thirty-six restaurants were opened in 1968. Of these, six were existing restaurants that the company began operating during the year under a contract awarded by the Kansas Turnpike Authority. A new restaurant, not included in the 36, replaced a smaller unit on the Pennsylvania Turnpike.

Our expansion continued in areas of the country where the rate of population growth is high. Twenty-five of the new restaurants were in our Mid West, Southeast and Western Divisions. The Western Division, which began operation with its first Howard Johnson's restaurant in 1965, now numbers 21 restaurants. Results have been highly satisfactory and four new units were under construction in California at the end of the year.

Improved and expanded service to the public was provided by the addition of new dining wings, cocktail lounges or snack bars to existing Howard Johnson's restaurants. In addition, a large number of company and licensed restaurants underwent major redecoration and modernization.

During the year 24 restaurants were closed. These were older or marginal-profit units, many of which could not be upgraded economically, and some of which had been bypassed by new roads. Their closings contribute to the improvement in the average profitability of units now in operation. Some of the bypassed units have been replaced by new Howard Johnson's restaurants built nearby.

At the end of the year there were 27 Howard Johnson's restaurants under construction. The following table summarizes the year's growth and presents figures as of December 31:

	Number of Restaurants		
	Company Operated	Licensee Operated	Total
December 31, 1967	484	329	813
Opened	30	6	36
Acquired from Licensees	5	(5)	–
Transferred to Licensees	(3)	3	–
Closed	(7)	(17)	(24)
December 31, 1968	509	316	825

New marketing and promotional activities were developed to increase customer traffic and stimulate restaurant sales. Television, radio and print media were employed in advertising campaigns conducted on a regional basis across the country.

A Monday Chicken Fry, patterned after the long-standing "all-you-can-eat" Wednesday Fish Fry, was introduced in 1968. Seasonal dishes were promoted by repeating the successful strawberries promotion in the spring and starting a new peach promotion in the summer. Later in the year, $1.99 Dinner Specials were initiated featuring turkey and ham entrees. The children's Birthday Club, successful regionally in contributing to the company's strong relationship with youngsters and families, was being expanded across the nation at the end of the year.

Fast Food Service Division

This new division, formed in 1968, is made up of the five HoJo Junctions opened during the last two years and several Howard Johnson's "walk-up" and "drive-in" units that the company has operated for many years. The general manager of this division reports to the restaurant operations group vice president along with the general managers of the Red Coach Grill Division and the six Howard Johnson's Restaurant divisions. The fast food

Restaurant Group Management Meeting

service operations feature a limited menu and self service, and all units are smaller than the typical Howard Johnson's restaurant. Plans call for building additional units utilizing new architectural and menu concepts that were developed during 1968.

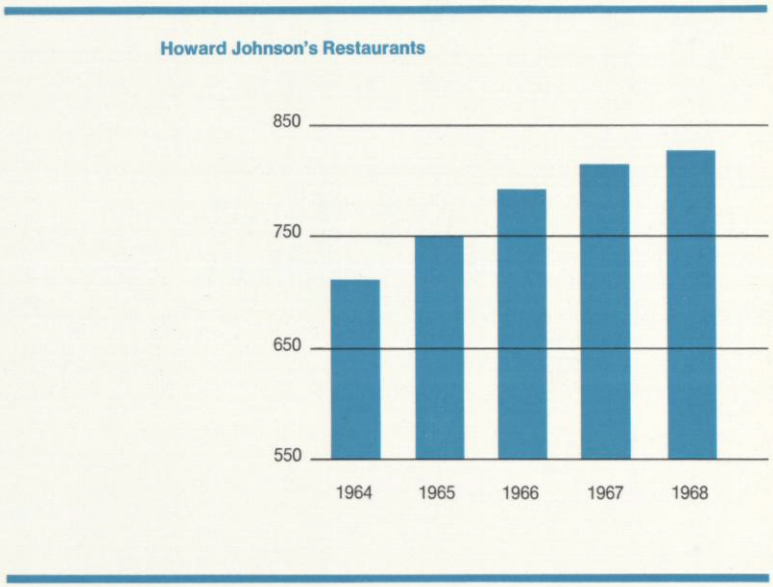
Red Coach Grill Division

Sales and profits of Red Coach Grill operations increased during the year.

As of December 31 four new units were under construction. One of them is being built, along with a Howard Johnson's restaurant and motor lodge, as part of a complex on air rights over the Massachusetts Turnpike at Newton, Massachusetts. Another, adjacent to the Garden State Parkway in Saddle Brook, New Jersey, is also being built in conjunction with a Howard Johnson's restaurant and motor lodge.

Both of the other Red Coach Grills under construction, in Braintree, Massachusetts and West Haven, Connecticut, are designed under a new concept featuring a more compact building and an open hearth in the dining area.

At the end of the year there were 17 company-operated Red Coach Grills and one that was licensee-operated.



(top, left) Donald G. Shaftoe — Group Vice President Restaurant Operations

(left) Burton M. Sack — General Manager, Fast Food Service Division

(bottom, left) William K. Foster — Director, Marketing

(bottom, center) Lowry M. Bell, Jr.— Director, Architecture, Design and Construction

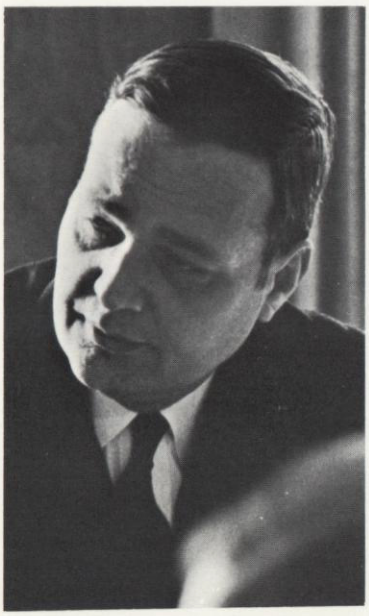
(below) Robert D. Parks — Executive Vice President Operations (1969)

Motor Lodge Division profits continued to grow as a high occupancy rate was maintained. Royalties from licensed motor lodges and revenues from company lodges both increased significantly during the year.

The number of units continued to grow as well. Twenty-eight new motor lodges were opened and additions were made to 12 existing lodges, adding more than 2,800 rooms to the system. New Howard Johnson's motor lodges in Arizona and Rhode Island were the first in these states.

The number of company-operated motor lodges more than doubled, to 29 from 14 a year ago. Eight of these were new construction and seven were existing lodges acquired from licensees. The results of company operations are most satisfactory, and we plan to expand their number as we continue at the same time with our licensed motor lodge expansion program.

As of December 31 there were 360 Howard Johnson's motor lodges containing 32,500 rooms in 36 states, the District of Columbia and Puerto Rico. This total includes 35 high-rise structures with nearly 6,000 rooms in or near major metropolitan areas. There were 23 motor lodges under construction as the year ended. The following table summarizes the year's growth and presents the status at year end:



Robert M. James — Manager Company Operations

Motor Lodge Management Meeting

Richard A. Seal — Manager Administrative Services

Wallace W. Lee, Jr. — Group Vice President Motor Lodges

Arthur P. Barrett — Manager Sales Development; Douglas F. Pierce — Manager Licensed Operations

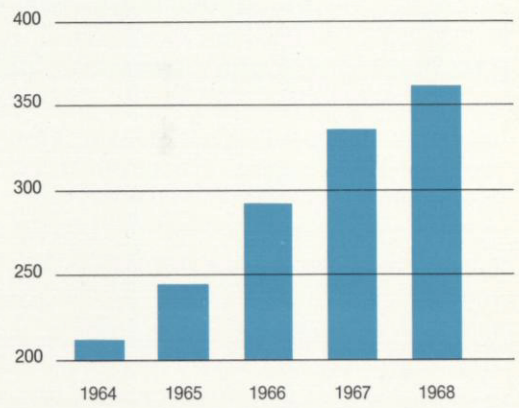
	Number of Motor Lodges		
	Company Operated	Licensee Operated	Total
December 31, 1967	14	318	332
Opened	8	20	28
Acquired from Licensees	7	(7)	—
Closed	—	—	—
December 31, 1968	29	331	360

In October the company announced plans for the installation and operation of a computer-based reservation system that will make and confirm lodging reservations at Howard Johnson's motor lodges. The system will be designed and operated under an agreement with an outstanding professional service organization with proven capability in this field. It is scheduled to be in operation about the middle of 1969. The system, called the most advanced in the lodging industry, will have the ability to exchange reservations with other lodging, auto rental and airline reservation systems. Licensee and company-operated lodges will finance the system by paying standard monthly charges on a per room basis.

Divisional promotion activities during the year included the preparation and distribution of two new publications. The first was a meeting room guide on accommodations at Howard Johnson's motor lodges, containing useful information for planning business meetings. The second was a rate directory for travel agents. These were distributed to appropriate special audiences in addition to the directory of Howard Johnson's facilities distributed to the general public.

Early in 1969 the company signed agreements with two major petroleum companies for the use of their credit cards for lodging and related services at Howard Johnson's motor lodges. The new agreements supplement a similar arrangement, with another petroleum company, that has been very successful since its inception in 1966.

Howard Johnson's Motor Lodges



Grocery Products Division

Sales of Howard Johnson's frozen and canned take-home food products and pre-packaged ice cream sold in retail outlets reached new highs again in 1968. Sales were up over 30 percent as over 41 million packages of the company's products were marketed through supermarkets and grocery stores.

The division expanded its penetration of existing markets through extensive campaigns to increase the number of retail outlets and introduce our products to new customers. Consumer attention was attracted through regional newspaper advertising and special point-of-sale promotion materials. These marketing and promotional expenses, which were substantial late in the year, have been charged to operations as incurred. As a consequence, the division's profit margins in 1968 declined from previous years.

The line of baked products was expanded as blueberry Toastees moved from the test market into general distribution. It joined corn Toastees, orange Toastees, and cakes—coconut, fudge and orange—in retail freezers. Consumer acceptance of these frozen baked products has been excellent.

Other frozen products include fried clams, shrimp croquettes, chicken croquettes, baked macaroni and cheese, and haddock au gratin. Canned products are New England clam chowder, Manhattan clam chowder, baked beans, brown beef gravy and turkey giblet gravy.

During the year our frozen products were introduced to Canadian markets where our canned foods were already being sold.

A variety of new products are under development under the direction of the Executive Chef. Some of these will be introduced in test markets during the coming year and eventually will move into general distribution under a continuing program of expanding our product line.

Beverage Division

In September the company granted its initial franchise for the bottling, canning and distribution of Howard Johnson's carbonated soft drinks. A bottler serving the Metropolitan New York area received the first such franchise. Soft drinks previously were canned under our supervision and sold through food brokers in a few selected marketing areas. The franchise method offers opportunity for accelerated expansion and similar franchises for other distribution areas are anticipated.

Landmark Supply Division

This division increased sales and profits in 1968, as it has continued to do since its first full year of operation in 1966. Landmark Supply Division procures and supplies restaurant and motor lodge furnishings and equipment at substantial savings to company and licensed operations. The division also supplies similar furnishings and equipment to customers not affiliated with Howard Johnson's.

Automatic Merchandising Division

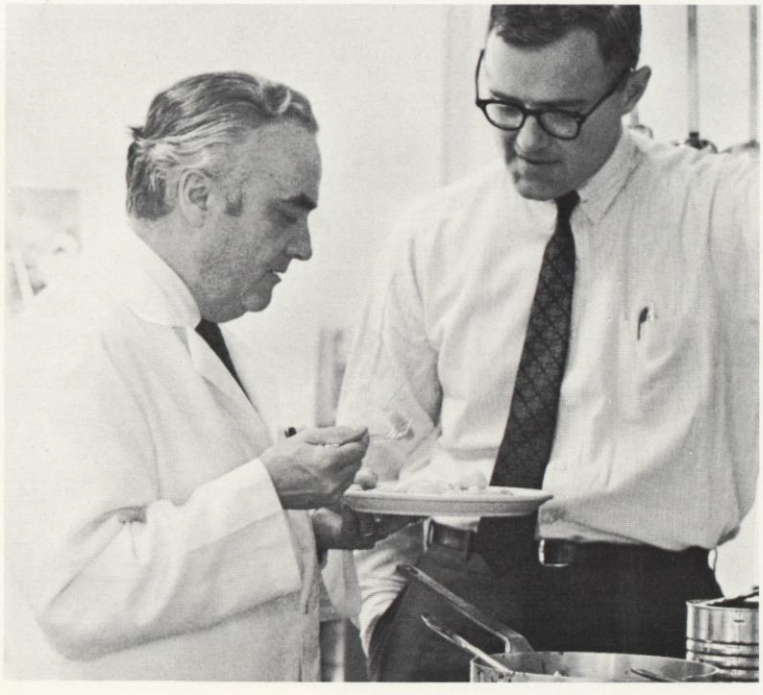
Substantial increases in sales and profits were achieved by this division during the year as it expanded operations. Vending machines were installed in new locations, including the restaurants on the Kansas Turnpike. Both Howard Johnson's products and those of other companies are sold to the traveling public in these machines, most of which are installed in locations on or near major limited-access highways.

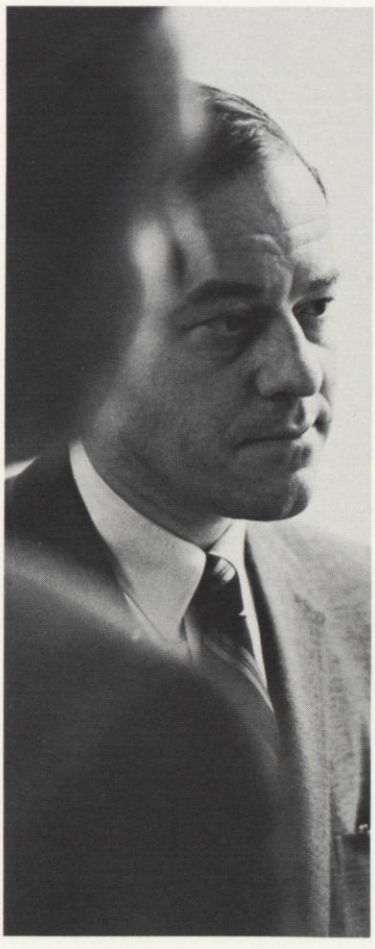
Fred A. Hahn—Group Vice President Special Divisions

(top, right) Grocery Products Strategy Session

(bottom, right) Landmark Supply Management Meeting

Pierre L. Franey—Executive Chef; Hugh J. Kelly—Director, Purchasing





Manufacturing and Distribution Group

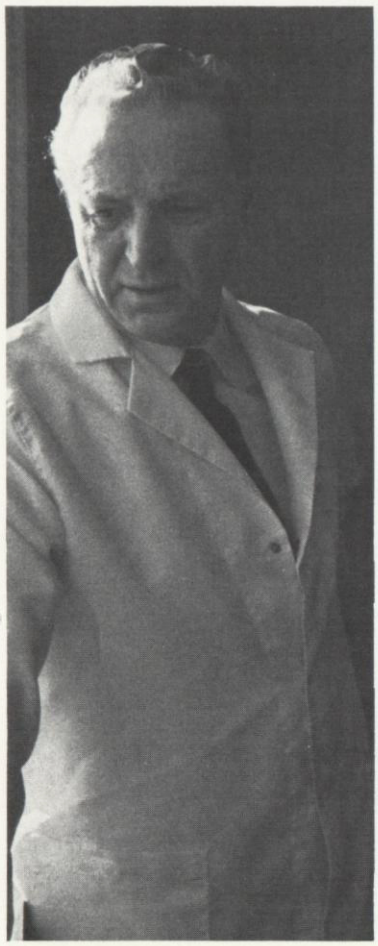
This group was established during the year to centralize national responsibility for the company's manufacturing and distribution operations, which previously had been supervised on a regional basis.

Four division general managers, reporting to a group vice president, supervise operations in food processing, ice cream manufacturing, candy and condiment manufacturing, and warehousing and distribution. Each has nation-wide responsibilities to ensure greater efficiency and to maintain the high standards of quality on which the company has built its reputation.

In all, some 700 items are manufactured or processed for distribution to Howard Johnson's restaurants through our national network of 23 food commissaries and distribution centers.

During the year production volumes at these plants continued to expand, reflecting the growth of our restaurant operations and increased sale of our take-home food products to retail outlets.

Expenditures for plant improvement, expansion and new equipment exceeded $1.4 million during the year. The major expansion was an addition to the Miami, Florida bakery and the installation of new equipment that increases production capacity by almost 200 percent. This expansion was required by increased demand from our restaurants and the Grocery Products Division.



Richard D. Muzzy — General Manager Candy/Condiments

(extreme left) Americo J. Imperiali — General Manager Food Processing

(below) Russell C. Almquist — General Manager Ice Cream Manufacturing

(right) Harold G. Bowerfind — General Manager Warehousing & Distribution

As the company continues to progress and expand operations, it has continued also to broaden the capability of its management to meet current challenges and to take advantage of the opportunities ahead of us. Particularly significant among the corporate changes made in 1968 were the following:

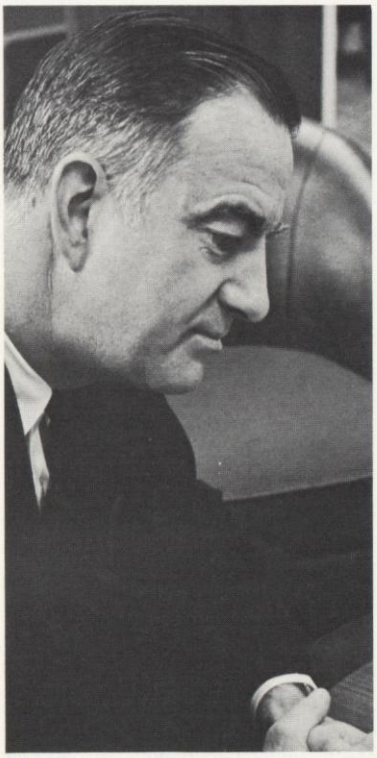
Howard B. Johnson was elected Chairman of the Board and continues to serve as President and Chief Executive Officer. The office of Chairman had been vacant since the retirement of Howard D. Johnson in 1964.

Howard P. Cummings retired as Executive Vice President Operations on January 1, 1969 to serve as Consultant, International Development. After many years of leadership in our Southeast and Southwest Divisions, Mr. Cummings became Executive Vice President Operations in 1966. He has been instrumental in developing our recent entry in the international field and in his consulting capacity will study new opportunities for additional expansion overseas.

Robert D. Parks succeeds Mr. Cummings as Executive Vice President Operations. Formerly general manager and vice president of the New England Division, Mr. Parks returned to the company recently after a two-year leave of absence to serve as president of the National Restaurant Association.

Wallace W. Lee, Jr. was elected Group Vice President responsible for the operation of the Motor Lodge Division. Mr. Lee, who has many years of experience in the lodging industry, joined the company in 1963 and later was elected Executive Vice President of the Motor Lodge Division.

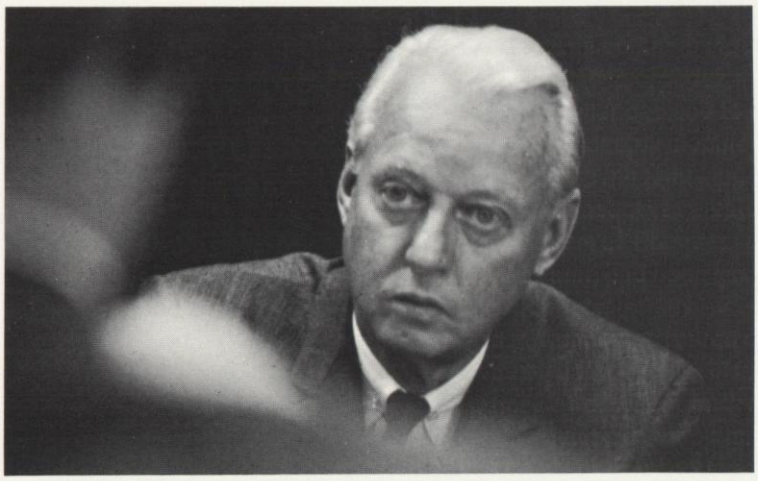
A. A. Stambaugh, Jr. — Executive Vice President Administration



John H. Wyllie — Executive Vice President Finance, Treasurer

(extreme right) Eugene J. Durgin — Executive Vice President Legal & Corporate Affairs

Howard P. Cummings — Consultant, International Development; [Executive Vice President Operations (1968)]



Fred A. Hahn was elected Group Vice President responsible for operation of our Special Divisions. Mr. Hahn joined the company in 1964 after a business career that included the marketing of food products and institutional feeding. He has been Vice President and General Manager of the Grocery Products Division.

The office of an additional Group Vice President, responsible for the operation of the Manufacturing and Distribution Group, was also established during the year. This office was filled early in 1969 when Clark L. Poland joined the company. Mr. Poland has been an executive in the food processing industry for many years.

During the year all accounting operations were consolidated in New England. This move permits the company to combine its computer operations, improve communications and standardize procedures. Marketing and architectural functions also were centralized to achieve greater efficiency and economy. Although the transfer of employees and equipment, and the addition of personnel resulted in substantial increases in our administrative expenses in 1968, these strengthened staff activities will play a vital role in assuring our future growth and success.

Our company's Sixth National Restaurant and Motor Lodge Conference was held in October. The conference theme "Start a Love Affair With the Consumer," set the stage for our 1969 promotional and operating programs. The three-day series of meetings, attended by 350 licensed operators and key company employees, covered virtually every aspect of the company's business to improve operating efficiencies and increase future sales and profits.

Directors

Howard B. Johnson	Chairman and President
Eugene J. Durgin	Executive Vice President—Legal and Corporate Affairs, Secretary
Charles M. Enders	Partner of F. S. Moseley & Co., New York, New York
William J. Martin	Chairman of the Board—South Shore National Bank, Quincy, Massachusetts
Fred Smith	Consultant—Office of the Rockefeller Family & Associates

Officers

Howard B. Johnson*	President
Eugene J. Durgin*	Executive Vice President—Legal and Corporate Affairs, Secretary
John H. Wyllie*	Executive Vice President—Finance, Treasurer
A. A. Stambaugh, Jr.*	Executive Vice President—Administration
Robert D. Parks*	Executive Vice President—Operations
Donald G. Shaftoe	Group Vice President—Restaurant Operations
Wallace W. Lee, Jr.	Group Vice President—Motor Lodges
Fred A. Hahn	Group Vice President—Special Divisions
Clark L. Poland	Group Vice President—Manufacturing and Distribution
Pierre Franey	Vice President and Executive Chef
Fredrich H. Thomforde	Vice President
Americo J. Imperiali	Vice President
Francis M. Barrett	Vice President
Joseph F. Cotter	Assistant Treasurer and Controller
Edgar L. Andlauer	Assistant Treasurer
Donald L. Kahl	Assistant Treasurer
Joseph V. Cronin	Assistant Secretary

*Members of the Management Planning Committee

General Counsel — Frank D. Hall

Counsel	Herrick, Smith, Donald, Farley & Ketchum Boston, Massachusetts
Independent Accountants	Price Waterhouse & Co., Boston, Massachusetts
Transfer Agents	Old Colony Trust Co., Boston, Massachusetts The Chase Manhattan Bank, New York, New York
Registrars	The First National Bank of Boston Boston, Massachusetts Manufacturers Hanover Trust Company New York, New York
The Annual Meeting	of the stockholders will take place at 11:00 A.M. (E.D.T.) Monday, April 28, 1969 at the Howard Johnson's Motor Lodge located at exit 16 (south) on the Southeast Expressway, Boston, Massachusetts

Printed in U.S.A.

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